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SOUTH VERMONT WATERWORKS DISTRICT NO. 1
FINANCIAL STATEMENTS
December 31, 2005

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the city and other appropriate public officials. The report is available for public inspection at the Union House office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

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W. MICHAEL HARRIS, CPA

UNQUALIFIED OPINION ON GENERAL-PURPOSE FINANCIAL STATEMENTS-GOVERNMENTAL ENTITY

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
South Vernon Waterworks District No. 1
Rosepine, Louisiana

I have audited the accompanying general-purpose financial statements of the South Vernon Waterworks District No. 1, a component unit of the Vernon Parish Police Jury, as of and for the year ended December 31, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the South Vernon Waterworks District No. 1's management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Vernon Waterworks District No. 1 as of and for the year ended December 31, 2001, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 18 to the financial statements, the South Vernon Waterworks District No. 1 incurred a financial loss due to employee theft and fraud. The probable amount of loss cannot be determined at this time. Accordingly, no entry has been made in the general purpose financial statements to record the total loss and any future reimbursement.

In accordance with Government Auditing Standards, I have also issued a report dated August 13, 2009, on my consideration of the South Vernon Waterworks District No. 1's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The accompanying schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Elliott & Assoc. "APAC"

Louisville, Louisiana
August 13, 2009

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W. Michael Eason, CPA

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
South Vernon Waterworks District No. 1
Bossier, Louisiana

I have audited the financial statements of the South Vernon Waterworks District No. 1 as of and for the year ended December 31, 2001, and have issued my report thereon dated August 13, 2002. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the South Vernon Waterworks District No. 1's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, the noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of a noncompliance that is required to be reported under Government Auditing Standards, which is described as follows:

2001.1 Findings: Due to decreased cash flow in certain months in the year 2001, the District did not fund all of its required deposits into its three sinking fund accounts by a total of \$138,901.

Management Response: The District anticipates increased cash flow beginning in late 2002 or early 2003 due to approval of a \$612,719 CDBG grant. This grant, while approved in a prior year, was recently funded to allow meter installations later in 2002.

2001.2 Findings: This report is not being issued within the six months of the close of its December 31, 2001 fiscal year-end which is a violation of ISA R.S. 424:512 (a)(1)(a).

Management Response: The report was not issued within the required time frame due to the theft loss described in Finding 2001.4 and the subsequent investigation that is not fully complete at this date. Future audit reports will be issued on a timely basis.

2001.3 Findings: All funds collected by the District in the year ended December 31, 2001, and possibly previous years were not deposited intact on a daily basis per the provisions of ISA R.S. 424:1212 based on the theft investigation as described in Finding 2001.4 and Note 10.

Management Response: Management has restricted its revenue cycle collection process to ensure that funds are deposited intact on a daily basis subject to a monitoring process by the District treasurer.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the South Vernon Watershed District No. 1's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted one matter involving the internal control over financial reporting and its operation that I consider to be a material weakness.

2001.4 Findings: In 2001 and previous years, the District incurred theft losses in an amount not yet determined by one of its employees. At that time, there was not proper segregation of duties in the revenue cycle.

Management Response: Management terminated the employee responsible for the theft. Procedures within the revenue cycle were changed subsequent to the theft loss to ensure proper segregation of duties.

This report is intended solely for the information of the Board of Directors and management of the South Vernon Waterworks District and the Legislative Auditor's office of the State of Louisiana. This report is not intended to be, and should not be, used by anyone other than these specified parties.

Elliott & Assoc. "APC"
Baton Rouge, Louisiana
August 13, 2002

South Vernon Waterworks District No. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended December 31, 2001

I have audited the financial statements of South Vernon Waterworks District No. 1 as of and for the year ended December 31, 2001, and have issued my report thereon dated August 13, 2002. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. My audit of the financial statements as of December 31, 2001 resulted in an unqualified opinion.

Section I Summary of Auditor's Reports

**a. Report on Internal Control and Compliance
Material to the Financial Statements**

Internal Control

Material Weaknesses ☒ Yes ☐ No
Reportable Conditions ☒ Yes ☐ No

Compliance

Compliance Material to Financial
Statements ☒ Yes ☐ No

b. Federal Awards

Internal Control

Material Weaknesses ☐ Yes ☐ No ☒ N/A
Reportable Conditions ☐ Yes ☐ No ☒ N/A

Type of Opinion On Compliance For Major Programs

Unqualified ☐ Qualified ☐
Disclaimer ☐ Adverse ☐
N/A ☒

Are their findings required to be reported in accordance with Circular
A-133, Section .555(a)?

☐ Yes ☐ No ☒ N/A

c. Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
None	None
dollar thresholds used to distinguish between Type A and Type B Programs: <u>\$ N/A</u>	
Is the auditee a "low-risk" auditee, as defined by OMB Circular A-133? () Yes () No (X) N/A	

Section II Financial Statement Findings

- 2001.1 Findings: Due to decreased cash flow in certain months in the year 2000, the District did not fund all of its required deposits into its three sinking fund accounts by a total of \$130,987.
- 2001.2 Findings: This report is not being issued within the six months of the close of its December 31, 2000 fiscal year-end which is a violation of LSA R.S. #24:513 (b)(5)(a).
- 2001.3 Findings: All funds collected by the district in the year ended December 31, 2001, and possibly previous years were not deposited intact on a daily basis per the provisions of LSA R.S. #38:1212 based on the theft investigation as described in Finding 2001.4 and Note 19.
- 2001.4 Findings: In 2001 and previous years, the district incurred theft losses in an amount not yet determined by one of its employees. At that time, there was not proper segregation of duties in the revenue cycle.

Section III Federal Award Findings and Questioned Costs

N/A

See independent auditor's report.

South Vernon Waterworks District No. 1

Balance Sheet

December 31, 2001

ASSETS

Current assets:	
Cash (Note 2)	\$ 7,888
Accounts receivable, net of allowance (Note 3)	17,360
State revenue sharing receivable (Note 3)	6,813
Ad valorem taxes receivable (Note 3)	<u>27,516</u>
Total current assets	<u>59,577</u>
Restricted:	
Cash (Note 2)	80,443
Ad valorem taxes receivable (Note 3)	<u>38,338</u>
Total restricted assets	<u>118,781</u>
Organization costs (Note 4)	55,772
Less: accumulated amortization	<u>(56,363)</u>
Organization costs (net of accumulated amortization)	<u>2,909</u>
Fixed assets (Notes 5 and 6)	3,340,366
Less: accumulated depreciation	<u>(418,870)</u>
Fixed assets (net of accumulated depreciation)	<u>2,921,496</u>
Total assets	<u>\$3,117,774</u>

The accompanying notes are an integral part of this statement.

Exhibit BLIABILITIES AND EQUITY

Current liabilities:	
Accounts payable	\$ 2,001
Pension deduction payable-unrestricted	921
Payroll taxes payable	<u>352</u>
Total current liabilities	<u>3,281</u>
Current liabilities payable from restricted assets:	
Pension deduction payable restricted	1,088
Current maturities - general obligation bonds (Note 6)	18,880
Current maturities - USDA Rural Development revenue bonds (Note 6)	18,071
Accrued interest payable (Note 6)	31,453
Water deposits	<u>2,558</u>
Total current liabilities payable from restricted assets	<u>34,422</u>
Long-term liabilities payable from restricted assets:	
USDA Rural Development revenue bonds (Note 6)	2,481,453
General obligation bonds (Note 6)	<u>241,088</u>
Total long-term liabilities payable from restricted assets	<u>2,722,553</u>
Total liabilities	<u>3,046,236</u>
Equity:	
Contributed capital, net (Note 8)	<u>481,083</u>
Retained earnings:	
Reserved for general obligation bond indebtedness	12,568
Reserved for water deposits	3,081
Unreserved-undesignated (Note 8)	<u>188,002</u>
Total retained earnings (deficit)	<u>(38,533)</u>
Total equity	<u>78,720</u>
Total liabilities and equity	<u>\$3,124,956</u>

Exhibit B

South Vernon Networks District No. 3
 Statement of Revenues, Expenses, and Changes in Retained Earnings
 For the year ended December 31, 2013

Operating revenues:

Charges for sales and services:

Water sales	\$ 201,213
Total operating revenues	<u>201,213</u>

Operating expenses:

Current:

Salaries and related costs	50,193
Bad debt expense	10,454
Rent expense	3,398
Insurance expense	9,112
Professional fees	5,558
Board per diem	3,000
Advertising	68
Phone & utilities	18,478
Materials and supplies	7,043
Depreciation and amortization (Notes 4 and 5)	109,519
State sales tax	7,390
Repairs and maintenance	1,227
Fuel costs and other travel expense	4,560
Miscellaneous expense	2,873
Office expense	<u>3,824</u>
Total operating expenses	<u>318,764</u>

Operating income (loss) (17,551)

Nonoperating revenues (expenses):

Interest income	3,632
Interest expense (Note 4)	(148,832)
State revenue sharing	19,230
Ad valorem taxes-restricted (Note 3)	33,511
Ad valorem taxes-unrestricted (Note 3)	25,262
Miscellaneous grant expense	<u>(1,580)</u>
Total nonoperating revenues (expenses)	<u>(79,837)</u>

Net loss (96,218)

Add back amortization of contributed capital 13,216

Decrease in retained earnings (83,028)

Retained earnings (deficit), beg. balance (Note 9) (381,315)

Retained earnings (deficit), ending (Note 9) \$ (639,028)

The accompanying notes are an integral part of this statement.

South Vernon Public Waterworks District No. 1
Statement of Revenues, Expenses, and Changes in Retained Earnings
(Budget and Actual (GAAP Basis))
For the year ended December 31, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Charges for sales and services:			
Water sales	\$188,580	\$ 201,213	\$ 12,713
Total operating revenues	<u>188,580</u>	<u>201,213</u>	<u>12,713</u>
Operating expenses:			
Current:			
Salary and related benefits	\$2,880	\$2,351	\$ 609
Bad debt expense	---	18,454	(18,454)
Rent expense	3,000	3,360	(360)
Insurance expense	6,500	8,132	(2,632)
Professional fees	3,600	3,888	89
Board per diem	1,000	3,000	---
Advertising	1,100	60	\$ 1,040
Phone and utilities	11,000	18,479	2,521
Materials and supplies	9,820	7,043	\$ 2,779
Depreciation and amortization	108,000	188,513	1513
State sales tax	1,990	7,390	(5,400)
Repairs and maintenance	1,000	1,327	1,773
Fuel costs and other travel expense	1,208	4,588	(3,380)
Miscellaneous expense	4,500	2,873	1,627
Office expense	<u>2,638</u>	<u>3,024</u>	<u>626</u>
Total operating expenses	<u>233,228</u>	<u>318,768</u>	<u>(85,540)</u>
Operating income (loss)	<u>(44,648)</u>	<u>(17,555)</u>	<u>7,163</u>
Nonoperating revenues (expenses):			
Interest income	2,500	2,432	132
Interest expense (Note 8)	(148,508)	(148,832)	(322)
State revenue sharing	10,000	10,228	228
Ad valorem taxes - restricted	26,044	25,513	7,887
Ad valorem taxes - unrestricted	18,416	25,283	5,636
Miscellaneous grant expense	<u>(12,810)</u>	<u>(11,380)</u>	<u>2,238</u>
Total nonoperating revenues (expenses)	<u>(184,148)</u>	<u>(186,939)</u>	<u>15,311</u>
Net loss	<u>(138,920)</u>	<u>(104,318)</u>	<u>22,548</u>

The accompanying notes are an integral part of this statement.

Exhibit C
(Continued)

South Vernon Parish Waterworks District No. 1
Statement of Revenues, Expenses, and Changes in Retained Earnings
Budget and Actual (GAAP Basis)
for the year ended December 31, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
Net loss	\$1118,820	\$ 678,278	\$ 22,542
Add back amortization of contributed capital	<u>13,250</u>	<u>13,250</u>	<u>-----</u>
Decrease in retained earnings	1303,570	693,028	22,542
Retained earnings (deficit), beginning balance	<u>1303,318</u>	<u>1303,318</u>	<u>-----</u>
Retained earnings (deficit), ending balance	<u>\$1412,888</u>	<u>\$1298,543</u>	<u>\$ 22,542</u>

The accompanying notes are an integral part of this statement.

South Vernon Waterworks District No. 3
Statement of Cash Flows
For the year ended December 31, 2001

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ 117,551
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	88,359
Amortization	11,864
Changes in assets and liabilities:	
Accounts receivable	(12,481)
Allowance for doubtful accounts	10,454
Accounts payable	11,389
Other current liabilities	688
Customer deposits	4,775
Retirement deductions payable	<u>15</u>
Net cash (used) by operating activities	<u>\$4,476</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Ad valorem taxes	<u>36,281</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Ad valorem taxes	34,531
Acquisition of property, plant and equipment	(479)
Repayment of indebtedness	(13,314)
Grant expense	(1,550)
Interest paid	<u>(142,188)</u>
Net cash (used) by capital financing activities	<u>(112,050)</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES	
Interest received	<u>2,632</u>
Decrease in cash	(741)
CASH, BEGINNING OF YEAR	<u>35,604</u>
CASH, END OF YEAR	<u>\$ 34,863</u>
CLASSIFIED AS	
Current Assets	\$ 3,688
Restricted Assets	<u>31,175</u>
Totals	<u>\$ 34,863</u>

The accompanying notes are an integral part of this statement.

South Vernon Waterworks District No. 1

Notes to the Financial Statements

December 31, 2001

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Vernon Parish Police Jury is a political subdivision of the State of Louisiana. The Vernon Parish Police Jury is the reporting entity for Vernon Parish as defined by MOGA Statement 1, "Defining the Governmental Reporting Entity."⁴

In April of 1984, the Financial Accounting Foundation established the Governmental Accounting Standards Board (GASB) to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local governments. In November of 1984, the GASB issued a modification of governmental accounting and financial reporting standards. This modification is recognized as generally accepted accounting principles for state and local governments.

South Vernon Waterworks District No. 1, "District," is a component unit of the Vernon Parish Police Jury as defined by MOGA modification Section 2100. The District was created by the Vernon Parish Police Jury as authorized by Louisiana Revised Statutes 18:2911-21. The District is governed by a board of five commissioners appointed by the Vernon Parish Police Jury, who are responsible for providing water service within the boundaries of the district.

A. FUND ACCOUNTING

South Vernon Waterworks District No. 1 is organized and operated on a fund basis as a Proprietary Fund Type-Enterprise Fund. In an enterprise fund the accrual basis of accounting is utilized and revenues are recognized when earned and expenses are recognized when incurred. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds follow GAF prescribed by the Governmental Accounting Standards Board and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets associated with the operation of these funds are included on the balance sheet. Fund equity, i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

C. BAD DEBTS

Uncollectible amounts due for ad valorem taxes and water sales are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable.

D. CASH AND CASH EQUIVALENTS

Cash includes amounts in petty cash, demand deposits, interest earning demand deposits, and money market accounts. Cash equivalents include amounts in time deposits, with maturities of three months or less.

E. FIXED ASSETS

The fixed assets of the waterworks district are accounted for on the balance sheet of the Enterprise Fund. The fixed assets of the District as shown on the balance sheet are recorded at historical cost. Depreciation is computed by the straight line method based on the estimated useful life of the individual assets.

F. INTEREST EXPENSE

The District expenses interest as it is incurred for accounting purposes and has not capitalized any previous interest expense.

North Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 2--CASH AND INVESTMENT COLLATERAL

Under state law, the District may deposit funds with a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The District may invest in United States bonds, treasury notes, time certificates of deposit of any bank domiciled or having a branch office in the State of Louisiana, investments as stipulated in state law, or any other federally insured investment.

At December 31, 2003, the District had cash and investments as follows:

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
Cash (demand deposits)	\$ 2,888	\$21,443	\$24,331

At year end, the carrying amount of the District's deposits (demand deposits and certificates of deposit) were \$24,331, and the bank balances were \$112,932. A summary of collateralization of bank balances is presented below.

Insured (Federal deposit insurance)	\$100,000
Uncollateralized (In accordance with GAAP - See below)	<u>12,932</u>
	<u>\$112,932</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times at least equal the amount on deposit with the fiscal agent.

The uncollateralized amount shown above is secured by pledged securities with a market value of \$101,802 held in the name of the pledging fiscal agent bank in holding or custodial banks. Even though the pledged securities are considered uncollateralized under GAAP, Louisiana Revised Statutes impose a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the District that the fiscal agent has failed to pay deposited funds upon demand.

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 3--RECEIVABLE

Receivables at December 31, 2001 consist of the following:

Ad valorem taxes--unrestricted	427,970
Ad valorem taxes--restricted	30,330
Water sales, net of allowance of \$10,454	17,500
State revenue sharing	<u>6,813</u>
Total	<u>\$50,227</u>

The amount included in the ad valorem receivable on the balance sheet is for ad valorem taxes which attach as an enforceable lien on property as of January 1 of each year. Taxes are levied to the taxpayers in November. Billed taxes become delinquent on January 1 of the following year. Revenues from ad valorem taxes are budgeted in the year billed.

The District utilizes the Vernon Parish Sheriff's Office to collect its property taxes using the assessed values determined by the tax assessor of Vernon Parish.

For the year ended December 31, 2001, taxes of 10 mills and 13.25 mills were levied on property with assessed valuation totaling \$2,584,674 and was dedicated toward operations and maintenance and the sinking fund, respectively.

For the year ended December 31, 2001 total taxes levied were \$48,089. The receivable at December 31, 2001 consisted entirely of the current year assessment. A reserve for bad debts for ad valorem taxes is not deemed necessary at this time by management.

The allowance for doubtful account activity for the year ended December 31, 2001 was as follows:

Balance, December 31, 2000	\$ ---
Additions	30,454
Reductions	<u>---</u>
Balance, December 31, 2001	<u>\$30,454</u>

The District's provision for bad debt for the year ended December 31, 2001 was \$10,454.

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 4--ORGANIZATION COSTS

Amortization of organization costs is computed on the straight-line method over five years. The breakdown of organization costs and accumulated amortization is as follows:

Balance, December 31, 2000	658,772
Less: Accumulated amortization	(34,183)
Balance, December 31, 2001	<u>\$ 3,292</u>

Amortization expense for the year ended December 31, 2001, was \$11,954.

NOTE 5--FIXED ASSETS

The following represents changes in fixed assets for the year ended December 31, 2001:

	Balance, 12/31/00	Additions	Deletions	Balance, 12/31/01
Land	\$ 15,000	\$ ---	\$ ---	\$ 15,000
Trucks and trucks	10,219	---	---	10,219
Office equipment and fixtures	10,711	429	---	11,140
Water system	<u>3,280,828</u>	<u>---</u>	<u>---</u>	<u>3,280,828</u>
Total	<u>3,316,758</u>	<u>\$ 429</u>	<u>\$ ---</u>	<u>\$3,317,187</u>

Depreciation expense for the year ended December 31, 2001, was \$28,559.

NOTE 6--GENERAL LONG-TERM DEBT

Bonds payable activity for the year ended December 31, 2001 was as follows:

Bonds payable, December 31, 2000	\$288,000
Bonds issued	---
Bonds retired	<u>(12,000)</u>
Bonds payable, December 31, 2001	<u>\$276,000</u>

The above represents \$318,000 in general obligation bonds dated May 3, 1994; due in annual installments of \$1,000-\$28,500 through 2020; interest at 5.40%-5.00%.

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 4--GENERAL LONG-TERM DEBT (Continued)

USDA Rural Development Revenue Bonds payable activity for the year ended December 31, 2001 was comprised as follows:

	FHA Rev. Bonds	FHA Rev. Bonds Series A	Totals
Balance at 12/31/00	\$3,443,823	\$ 88,866	\$3,532,689
Additions	---	---	---
Payments	---	(1,214)	(1,214)
Balance at 12/31/01	<u>\$3,443,823</u>	<u>\$ 87,652</u>	<u>\$3,531,475</u>

The USDA Rural Development Revenue Bonds are being paid in a monthly payment of \$13,088 including principal and interest at 4.875%. The USDA Rural Development Revenue Bonds Series A are being paid in a monthly payment of \$435 including principal and interest at 4.875%.

During the year ended December 31, 2001, the District did not make all of its required debt service payments. The scheduled principal payments were not paid according to the amortization schedule; therefore, the District agreed with the USDA Rural Development in January 2002 to pay the \$28,178 in delinquent principal over the subsequent 12 months through December 31, 2002, in addition to the normal monthly debt service for 2002.

The annual requirements to amortize all revenue and general obligation bonds outstanding as of December 31, 2001, including interest payments of \$3,840,178, are as follows:

2002	\$ 223,847
2003	198,369
2004	198,549
2005	189,707
2006	188,808
2007-2011	958,869
2012-2016	898,877
2017-2021	818,739
2022-2026	813,301
2027-2031	813,630
2032-2036	<u>726,122</u>
Total	<u>\$5,038,862</u>

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 1--RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft or damage and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District carries commercial insurance as outlined in the following table. Settled claims did not exceed commercial coverage for any of the past three fiscal years.

	LIMITS OF COVERAGE
Workmen's compensation	statutory
Auto liability	\$ 500,000
Commercial general liability	1,000,000
District-owned buildings and equipment	\$50,000

The District covers all other losses, claim settlements, and judgments from operating resources. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

The District was not involved in any litigation nor did it have asserted claims lodged against it.

NOTE 2--CONSTRICTED CAPITAL

Changes in contributed capital for the year ended December 31, 2001 were as follows:

Balance at December 31, 2000	\$400,313
Additions	-----
Amortization	<u>(13,250)</u>
Balance at December 31, 2001	<u>\$387,063</u>

NOTE 3--RETAINED EARNINGS DEFICIT

The District has an unreserved - undesignated deficit of \$300,369 at December 31, 2001. The District was awarded a \$562,719 ODWS grant in 1998 to expand its system, and this grant was only recently funded in June 2000. Bids were solicited in June 2000 and a contractor was selected in July 2000 to begin construction of new water lines in order to increase the District's customer base by approximately 180 customers. The District feels that with the increase of these additional potential customers, the District can improve its financial condition over future periods.

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 10-LOAN CONTINGENCY

In January 2002, the District discovered that its former office secretary had embezzled funds over a period of time including the year 2001 and possibly previous years. The probable amount of theft loss and any future reimbursement cannot be determined as of this date.

The theft loss amount, when determined later in 2002, will be recorded as a prior period adjustment and criminal proceedings will begin at that time to seek full recovery of the lost funds.

SUPPLEMENTARY INFORMATION

South Vernon Waterworks District No. 1
COMPENSATION OF BOARD MEMBERS
For the year ended December 31, 2001

The schedule of per diem paid to board members was prepared in compliance with House Concurrent Resolution No. 54 of the 1979 session of the Legislature.

As provided by Louisiana Revised Statute 33:4544, District board members received \$60 per diem for attendance at meetings of the board in 2001.

	<u>Number Attended</u>	<u>Amount</u>
Barbara Bartlett *	12	\$ 600
Bill Churchmen *	12	600
Mark Davis	12	120
Deborah Dixon **	11	360
Marion Van Tassel	12	<u>120</u>
Total	<u>12</u>	<u>\$ 3,180</u>

* Barbara Bartlett attended 12 meetings, and Bill Churchmen attended 12 meetings, but both of these board members elected to collect per diem for only 10 meetings.

** Deborah Dixon attended 11 meetings but elected to collect per diem for only 8 meetings.

See independent auditor's report.

South Vernon Waterworks District No. 1
SCHEDULE OF PRIOR YEAR FINDINGS
For the Fiscal Year ended December 31, 2001

**SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE
FINANCIAL STATEMENTS**

2000.1 Due to decreased cash flow in certain months in the year 2000, the District did not fund all of its required deposits into its three sinking fund accounts by a total of \$25,988. Furthermore, \$54,817 had to be utilized out of the depreciation and contingency sinking fund to help pay debt service on the BDA note obligation.

**SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL
AWARDS**

There were no prior year findings relating to internal control and compliance material to federal awards.

SECTION III MANAGEMENT LETTER

There was no management letter with prior year audit report.

See independent auditor's report.

South Vernon Waterworks District No. 1
MANAGEMENT'S CORRECTIVE ACTION PLAN
For the Fiscal Year Ended December 31, 2001

**SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE
FINANCIAL STATEMENT**

- 2001.1 The District anticipates increased cash flow beginning in late 2002 or early 2003 due to approval of a \$662,319 CDBG grant. This grant, while approved in a prior year, was recently funded to allow meter installations later in 2002.
- 2001.2 The report was not issued within the required time frame due to the theft loss described in Finding 2001.4 and the subsequent investigation that is not fully complete at this date. Future audit reports will be issued on a timely basis.
- 2001.3 Management has restricted its revenue cycle collection process to ensure that funds are deposited intact on a daily basis subject to a monitoring process by the District treasurer.
- 2001.4 Management terminated the employee responsible for the theft. Procedures within the revenue cycle were changed subsequent to the theft loss to ensure proper segregation of duties.

**SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL
AWARDS**

N/A

SECTION III MANAGEMENT LETTER

N/A

See independent auditor's report.